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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Energy Conservation . . .

One of the side effects of this year's pickup in the pace of business activity has been a rise in energy consumption. Demand for petroleum rose for the fifth month in a row in October, compared with year-ago levels, following five years of practically uninterrupted declines. During the third quarter, motorists began taking more and longer trips, which resulted in a 2.3 percent increase in gasoline use compared with last year. Demand for jet fuel climbed almost five percent during this period, while consumption of distillates—which include home heating oil and diesel fuel—rose 5.3 percent. Stepped-up output by the nation's factories increased industrial demand for electricity. Usage jumped by a seasonally adjusted 22.4 percent annual rate in the third quarter—the highest quarterly rise on record.

It is clear, however, that despite increased consumption, price-induced conservation efforts adopted over the past decade remain an important part of the energy picture and improved efficiency still has a high priority in American industry. While the economy expanded by 4.6 percent in the third quarter, year-over-year, petroleum consumption increased only 1.3 percent during this time. According to the Department of Energy, in the first half of 1982, 49,000 BTUs of energy were needed to produce one dollar of "real" GNP, whereas in the first half of this year 46,150 BTUs were required—nearly a six percent improvement. By contrast, in 1973, it took 59,500 BTUs to produce one GNP dollar.

Although consumption of motor gasoline perked up this year, American motorists and the automobile industry continue to conserve. For despite a 25 percent rise in the number of cars in use since 1973 and only a 6.6 percent drop in the average number of miles traveled per car, consumption of gasoline in the U.S. was actually 3.6 percent lower during the first nine months of this year than it was for the same period in 1973.

Since 1973, there has been a substantial improvement in fuel efficiency of the typical automobile on the road. As the table shows, the average number of miles traveled per gallon of fuel consumed by all cars is estimated to have increased by more than 25 percent over the past ten years. Even more remarkable is the fact that these results encompassed a period of extremely sluggish new car sales—between 1979 and early 1983—which slowed the shift from older vehicles to newer, more fuel-efficient models. Therefore, the revival in automobile sales and the consequent increase in the fuel efficiency of the nation's fleet will keep a lid on gasoline consumption even as motorists drive more and buyers show renewed interest in larger cars. This is particularly important to the overall energy situation, since gasoline consumption is the single largest component of U.S. petroleum demand—representing close to 45 percent.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Auto	÷	Average Number of Gallons Consumed per Auto	=	Average Miles Traveled per Gallon
1973	9,992		763		13.1
1978	10,046		715		14.1
1979	9,485		664		14.3
1980	9,135		603		15.1
1981	9,026		581		15.5
1982	9,047		570		15.9
1983(e)	9,336		568		16.4

Sources: Federal Highway Administration; MHT estimates

. . . Is Here To Stay . . .

To be sure, the stepped-up pace of U.S. business activity is likely to push up energy demand further. For example, as people's economic situations and financial prospects improve, so do their plans for vacations. The Conference Board's survey of vacation plans showed that last June 32.5 percent of households intended to take driving vacations in the following six months—a one percentage point increase over the previous year. Since then, the year-over-year comparisons widened to about three percentage points. This desire to drive more was also encouraged by the recent decline in gasoline prices and favorable weather conditions. Since mid-July, the price at the pump has dropped by more than four cents per gallon.

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While the mild weather has been conducive to driving, it has put a damper on the home heating oil market. Sales are depressed and retail prices in some areas are as much as 14 cents per gallon below year-ago levels. So far during this heating season, the nation's weather, as measured by population-weighted heating degree days, has been not only eight percent warmer than last year, but also ten percent warmer than normal.

However, even if temperatures drop below normal this winter, a return to the energy profligacy of the pre-1973 years is hardly likely. Over the years, homeowners have made their homes more energy-efficient, installing extra insulation, weather stripping and storm windows, while many switched to natural gas and such other less conventional forms of heating as wood stoves and solar energy. They have lowered their thermostats and cooler temperatures indoors seem to be well accepted.

While the use of distillate oil as a home heating fuel is not very predictable—since it is determined to a large extent by the weather—its use as a diesel fuel by the transportation sector is more easily anticipated. Responding to changes in the economy, railroad and truck traffic started to recover in late spring and posted significant year-to-year advances in the third quarter. As a result, in the third quarter, increased demand for diesel fuel more than offset the slide in consumption of home heating fuel, causing a 5.3 percent rise in overall distillate demand.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/9/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	153.528	– 1.800	+12.370
Loans to Depository Inst.	1.043	+ .598	+ .321
Float	2.022	+ .788	– .647
Total Reserve Bank Credit	165.704	– .471	+11.231
Treasury Deposits with Federal Reserve Banks	2.907	– 1.016	– .349
Currency Outside Banks	146.793	+ 1.553	+13.014
Member Bank Reserves:			
Required	36.850	– .948	– 3.117
Excess (Deficiency)	.535	+ .158	+ .193
Total Reserves Held	37.385	– .790	– 2.924
Net Borrowed Reserves	.382	+ .447	+ .242
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.984	+ .852	+10.564
Monetary Aggregates †		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M1	517.8	+ 0.2‡	+ 9.8‡
M2 (October '83)	2,161.0	+ 6.5	+ 12.0
M3 (October '83)	2,560.9	+ 8.1	+ 8.9
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 11/18/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.75%	8.90%	9.00%
* Federal Agencies	9.00	9.30	9.80
* Project Notes–Taxfree (46% Taxable Equivalent)	9.35	9.81	10.74
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.45	9.61	10.10

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.05%	Dec.	9.20%
15- 29 days	9.10	Jan.	9.20
30- 59 days	9.13	Feb.	9.20
60- 89 days	9.15	Mar.	9.20
90-179 days	9.10	Apr.	9.20
180-239 days	9.00	May	9.20
240-270 days	9.00		

‡Industrial Paper–Prime			
30- 89 days	9.15%	†Federal Funds Effective Rate	9.25%
90-120 days	9.15		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,363	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.9	9.7	– 1.0
Change in Consumer Prices (new series)*	Sep '83	6.0%	4.8%	1.2%
Change in Producer Prices*	Oct '83	3.6%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Oct '83	101,928	101,945	99,176
Unemployment as % of Civilian Labor Force†	Oct '83	8.8%	9.3%	10.5%
Personal Income*	Sep '83	$ 2,781	$ 2,756	$ 2,597
Leading Indicators Composite Index (1967=100)†	Sep '83	160.2	158.7	137.5
Industrial Production Index (1967=100) †	Oct '83n	154.8	153.6r	135.7
Net Change in Consumer Installment Credit †	Sep '83	$ 2.38	$ 3.39	$ 1.26
U.S. Merchandise Trade Balance †	Sep '83	–$ 5.81	–$ 7.19	–$ 4.20
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Oct '83n	1,608	1,672r	1,142
New Construction Expenditures*	Sep '83	$ 272.7	$ 274.8	$ 230.7
Total Business Inventories †	Sep '83n	$ 513.8	$ 510.4r	$ 521.0
Total Business Sales †	Sep '83n	$ 380.0	$ 374.4r	$ 342.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . And Prices Show It

This upturn in domestic demand for petroleum products is not expected to start another upward spiral in oil prices in the near future. Barring an unexpected interruption, supplies are expected to remain plentiful, while world demand stays depressed. Most of the major oil producers are anxious to step up production to increase export revenues. More than one-half of the 13 OPEC members are already believed to be exceeding their quota, raising total OPEC output to an estimated 18.6 to 18.7 million barrels per day (mbd)—more than one mbd higher than agreed upon.

The rise in energy consumption seems to be limited to the United States. Petroleum demand by the rest of the world remains depressed as economic recoveries in the major industrialized countries remain sluggish. What is more, most of the other countries did not benefit as much from the drop in the OPEC average official price as did the United States. This is because the price of oil is denominated in dollars and many of the world currencies have been depreciating vis-a-vis the dollar. For example, since early February, the price of crude oil has declined by 15 percent in dollar terms. When translated into French francs, this price cut has been completely erased and in Italy, the depreciation of the lira reduced the price break to only two percent.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/2/83)	88,416	+ 454	–56,646
New York City (11/2/83)	18,528	+ 29	–19,488
Commercial Paper (11/2/83)	179,072	+ 827	+ 8,703*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/2/83)	216,534	+ 1,528	– 1,035
New York City (11/2/83)	57,959	+ 771	– 3,432

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/2/83)	521,029	+ 4,289	+14,478
New York City (11/2/83)	120,992	+ 2,803	– 759

Financial Markets

	Friday 11/18/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.18%	+ .13	+ .88
180-Day Bills†	9.60	+ .12	+ .90
Longest Bills†	9.92	+ .10	+ .97
Recent Issues:			
10½s 10/31/85	10.65	+ .10	
11⅛s 9/30/87	11.20	+ .06	
11¾s 11/15/93	11.65	– .03	
12s 8/15/13	11.80	+ .05	
Municipals:			
Bond Buyer–20 Bond Index* (11/17/83)	9.70%	– .05	– .50
Blue List Total ($ Million)	$1,481	+$ 145	+ $ 91
30-Day Visible Supply ($ Million)	$3,313	–$ 172	– $2,443
Total	$4,794	–$ 27	– $2,352
Corporates:			
Moody's Aa Composite (11/17/83)	12.61%	– .05	+ .12
30-Day Visible Supply ($ Million)	$ 400	–$1,350	– $ 970
Stocks:			
Dow-Jones Averages:			
Industrials	1,250.91	+ .71	+ 229.66
Transportation	606.04	+ 10.47	+ 172.89
Utilities	137.33	+ .24	+ 17.96
65 Stocks	505.68	+ 2.90	+ 106.44
Standard and Poor's 500 Stocks	165.09	– 1.20	+ 28.07
N.Y.S.E. Composite Index	95.46	+ .71	+ 16.14
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,592	+ 6,910	+ 612

* 46% Taxable equivalent 17.96%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/18/83	Week Ago
Overnight	9.25%	9.38%
1 month	9.50	9.50
3 month	9.88	9.75
6 month	10.00	9.88
1 year	10.31	10.19
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.60%
Long Term (7 to 15 yrs.)	11.75	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/18/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01825	54.79
Canada	.8081	1.2374
Denmark	.1029	9.7145
France	.1219	8.2035
Germany	.3709	2.6965
Italy	.0006124	1633.00
Japan	.004241	235.80
Mexico	.006173	162.00
Netherlands	.3312	3.0195
Switzerland	.4588	2.1798
U.K.	1.4787	.6763

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